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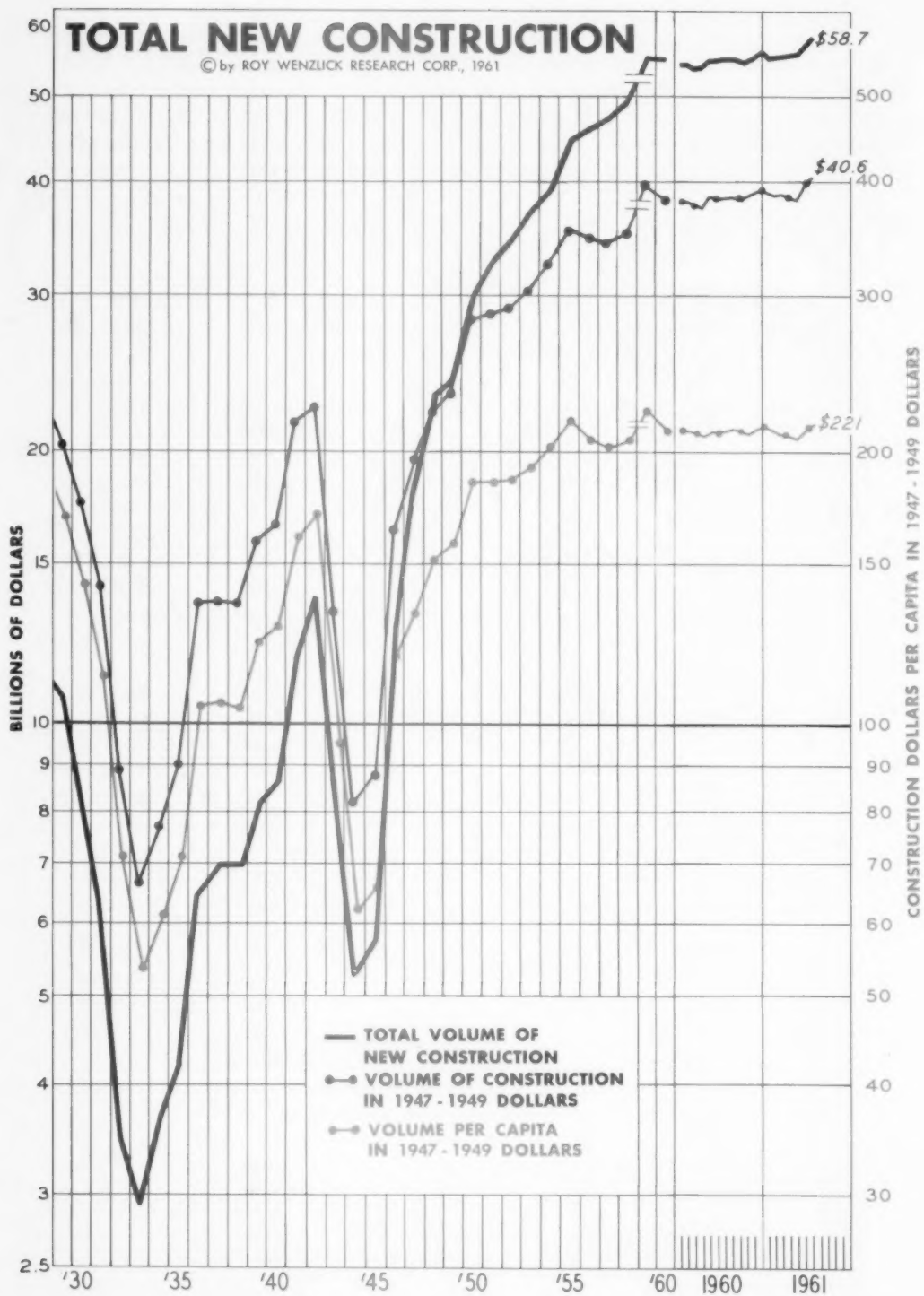
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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

COMMERCIAL AND INDUSTRIAL CONSTRUCTION DURING 1961

So far this year total new construction has been running about 2 percent above 1960. Although expenditures for all construction have been rising steadily since 1944, much of the dollar rise in recent years is due to population increases or is deceptive due to higher building costs. We have, however, been building at a greater rate per capita for the last seven years than we did during 1926-27, the peak of the last boom. The volume of all construction per capita since 1929 is shown by the dotted red line on page 438. This chart and the following three charts show construction expenditures annually from 1929 through 1960, and the seasonally adjusted annual rates for each month during 1960 and 1961. The seasonally adjusted annual rate is the monthly volume of construction adjusted for the season of the year and multiplied by 12 so that one can see what the annual volume would be if construction continued at the same rate.

We can forecast the trend of industrial construction expenditures from the chart below, which shows the anticipated plant and equipment expenditures.





Total expenditures for constructing industrial buildings parallel plant and equipment expenditures. The years 1958-59 were slump years for industrial construction and for plant and equipment expansion. The survey made last spring by the Department of Commerce and the Securities and Exchange Commission indicates that there will be a greater than seasonal increase in these expenditures this fall. The increase, however, will not be enough to bring a tremendous upsurge in the next few months. Total expenditures for the year are anticipated to be 3 percent less than for 1960.

If industrial building continues at the same rate that it has for the first seven months of the year, then we will end with about \$2.9 billion spent for these buildings, or a 1 percent increase over 1960.

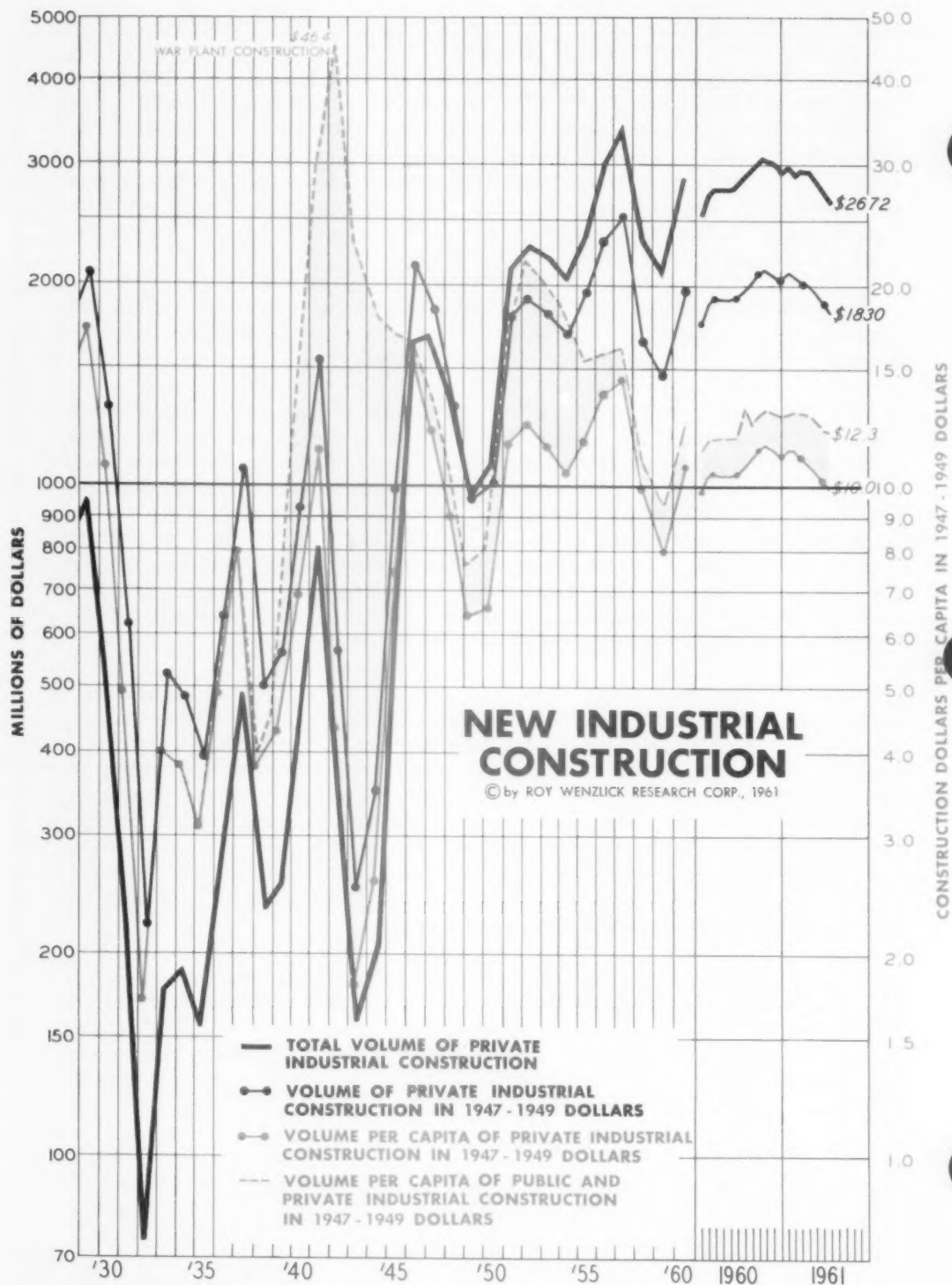
There are many more lines on the chart on industrial construction than the solid blue line showing the actual dollar volume of these expenditures. There is the dotted blue line, which shows private industrial construction expenditures corrected for changes in construction costs. This compares current construction more realistically with that of past years. This line shows that we have surpassed the private industrial building of the 1929 boom twice -- once in 1946 to get private industrial production going again after the war, and once in 1956-57. We have since lost ground and haven't again built at this rate. If we take into account population changes, the large dotted red line, we have never built quite as much industrial space per person as we did in 1929.

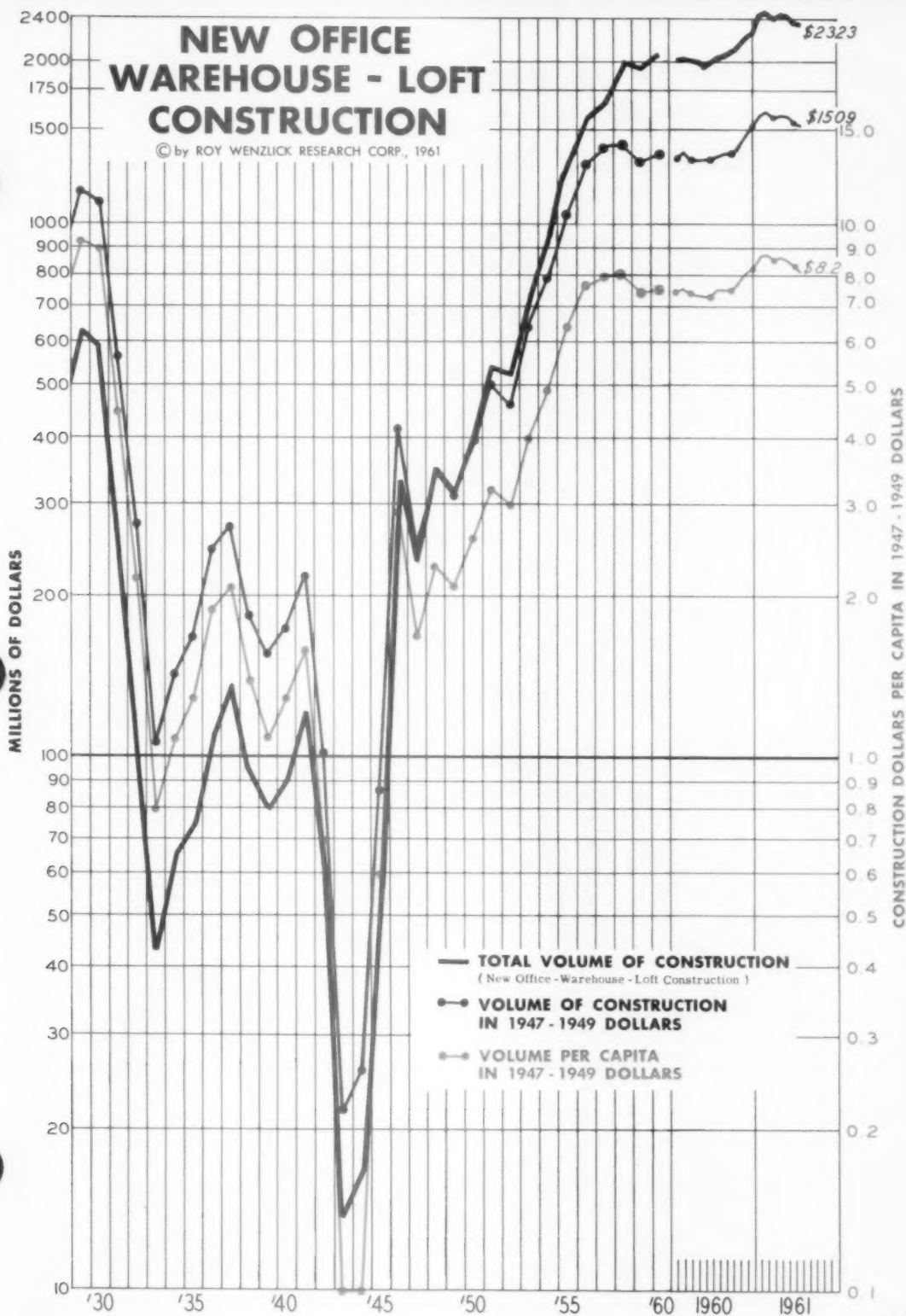
Since this last great boom, however, we have seen tremendous changes in public economic policy entailing millions of dollars of public construction, and a war in which military production meant large public expenditures on industrial construction to fight the war. These expenditures have been added to private expenditures and adjusted for population and cost changes. The small dotted red line shows public and private industrial construction volume per capita. There is not much difference between the total of public and private, and private industrial construction at this time, but should we have to fight a limited war, such as Korea, or a full-scale war, we could expect public expenditures to increase rapidly, as they did before.

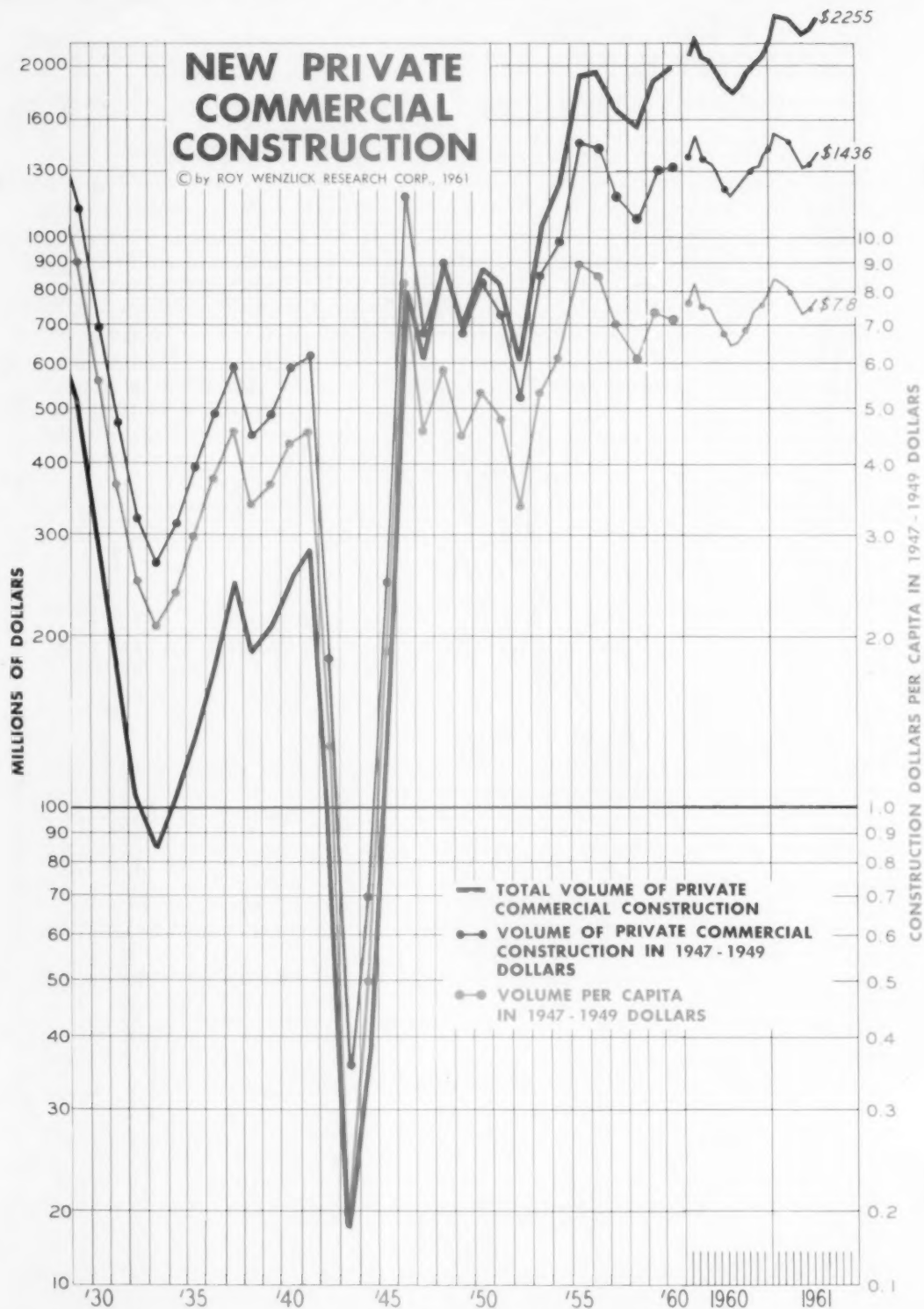
The current slump in industrial plant and equipment expansion has not curtailed the commercial construction expenditures. Office, warehouse, and loft building expenditures, charted on page 441, have been proceeding at a rate averaging 14 percent higher than last year. If office, warehouse, and loft construction continues at this rate, about \$2.4 billion will be reached in 1961. Last year only \$2.1 billion was spent on these buildings.

Why doesn't the decline in plant and equipment expenditures or the decline of corporate profits influence office construction? The demand for office build-

(cont. on page 443)







(cont. from page 439)

ing space does not come primarily from manufacturing corporations, but from professional and service organizations: lawyers, doctors, consultants, accountants, financial analysts, insurance companies, etc. As our economy has developed, the proportion of persons employed in basic agricultural and manufacturing industries has declined, and the proportion employed in service organizations has increased. Since 1950 the total civilian labor force has grown about 9 percent, while those employees most likely to be housed in office space have multiplied much more. Professional and technical workers have increased 74 percent, and clerical help has increased 29 percent. This expansion of service employment accounts for the huge demand for new office space. Although per capita volume of construction has not surpassed that of 1929 and 1930 for these types of buildings, the per capita volume has been at a level just under that peak for about six years. Are we overbuilt? Perhaps in some places, but this boom has been going on while office building vacancies have been 5 percent or less. Compare this with the boom of the 1920's, when office vacancies were around 10 percent! We are, of course, nowhere near the 27 percent depression vacancies experienced in 1934.

Commercial buildings this year will run about 9 percent above last year in dollar volume. This category includes stores, restaurants, garages, and shopping centers. If we average the same rate of construction during the rest of 1961 that we have for the first seven months, expenditures for constructing these buildings will reach \$2.2 billion.

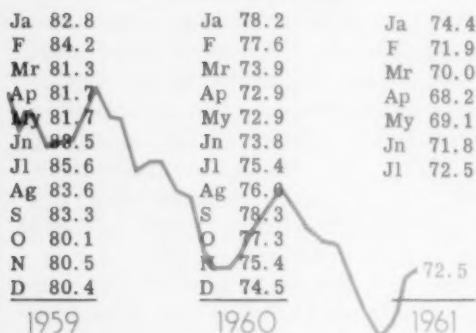
Per capita volume of building in this category has not matched nor come close to the boom years of 1926-29. There are probably many reasons for this, but certainly one is the radical shifts in merchandising as a result of the automobile. Instead of many little grocery stores of 800 square feet within walking distance of the market area, each doing a small annual volume per square foot of sales area, large supermarkets with an average of 20,000 square feet and ample parking are built, each doing a large volume per square foot. Thus, although the cost per store is much higher because of its larger area and modern equipment, fewer stores are needed to service the same market area, so that the constant dollar outlays per capita might be less than during the boom of the 1920's. Also, investors may be investing more conservatively and carefully to avoid the overbuilding of the 1920's. This could account for the same decline in per capita real investment in new commercial buildings.

As the economy continues to swing out of the recession to new highs in production and spending, there will be a need for more commercial and industrial construction. Although some local places may be temporarily overbuilt, there are many others where there is no sign as yet of overbuilding of commercial and industrial buildings.

ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET*

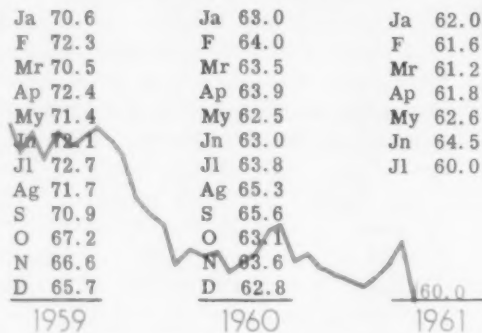
REAL ESTATE ACTIVITY

Number of Voluntary
Real Estate Transfers
per 10,000 Families



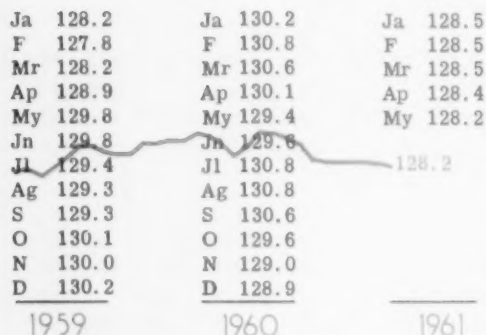
MORTGAGE ACTIVITY

Number of
Mortgages Recorded
per 10,000 Families



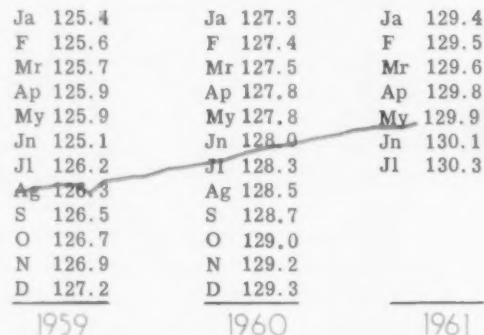
REAL ESTATE SELLING PRICE

Index: 1947-49 = 100



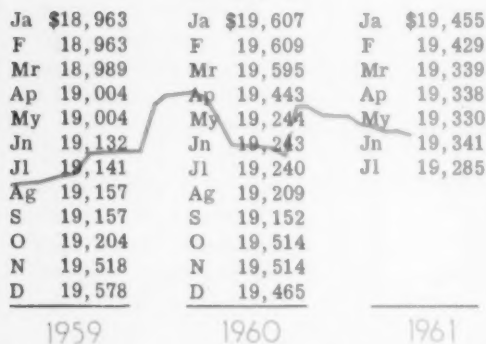
RESIDENTIAL RENTS

Index: 1921-38 = 100



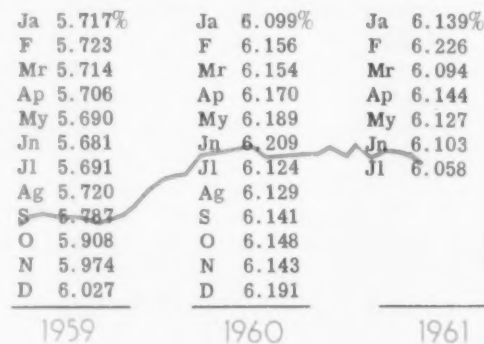
COST-TWO-STORY SIX-ROOM FRAME HOUSE

(St. Louis)



AVERAGE INTEREST RATE

Recorded Mortgages in
11 Major Cities of the United States



*RED LINE SHOWS MONTHLY TREND OF INDICATORS
FROM JANUARY 1959 TO THE PRESENT

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6
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